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Perestroika and the Debate over Territorial Economic Decentralization

by Donna Bahry

Last fall's debate over now-implemented amendments to the Soviet constitution highlighted the increasingly open conflicts between Moscow and its constituent republics. At a time when *perestroika* had promised more power to republics and localities, the amendments to restructure national government and elections were interpreted as a return to greater central controls. Gorbachev's proposals to restore the two-tier legislature of Lenin's time and to create multi-candidate elections implied a downgrading of the rights of republics and minority nationalities. The new Congress of Peoples Deputies and Supreme Soviet might afford a greater voice to public organizations and groups, but might also dilute regional and ethnic representation at the all-union level. Election reform gave voters choices among candidates and perhaps a degree of control over public officials, but could also threaten the hold of titular nationalities on deputy selection in the republics.

Protests from Tallinn to Tbilisi showed how unpopular such outcomes might be. In Georgia, some 200,000 people reportedly turned out to dramatize their support for republic rights. In the three Baltic republics, new popular fronts and informal groups gathered hundreds of thousands of signatures in protest and collaborated on counterproposals; and the Estonian, Lithuanian and Georgian Supreme Soviets voted against the draft amendments.[1] Estonia's Supreme Soviet took the opportunity to declare republic sovereignty, with a resolution asserting its right to reject central laws that violated the republic's sovereignty, conflicted with its constitution, or did not consider its specific local characteristics.[2] Nevertheless, the amendments passed handily in the USSR Supreme Soviet on December 1, after concessions and pressures from Moscow to blunt the objections.

The drama had its share of irony: for months, Gorbachev had criticized republic and local officials for their misunderstanding of *perestroika*, dependency on handouts from Moscow, and "deep-seated parasitic attitudes."[3] The response was a bid to assert regional sovereignty over domestic affairs.

In the aftermath, Gorbachev promised that 1989 would usher in a new stage of *perestroika*. This year is to be one of "harmonizing" inter-ethnic relations, codifying republic rights (especially economic rights), and reorganizing power at the local level. Territorial decentralization, Gorbachev noted, would be critical to the success of the entire economic reform.[4]

Yet questions about how, and how much to decentralize are far from settled. The uneven spread of *perestroika* among republics has fostered growing strains between reformist and

1 Ann Sheehy reports that a majority of deputies in the Armenian Supreme Soviet also voted against the amendments, but were overruled on technical grounds; and deputies to Latvia's Supreme Soviet voted for a set of counter-proposals instead. See "The First Stage of Gorbachev's Reform of the Political System and the non-Russian Republics," *Radio Liberty Research Bulletin*, 520/88, December 2, 1988; and "Republican Rights and the Proposed Amendments to the Constitution," *Radio Liberty Research Bulletin*, 497/88, November 10, 1988.

2 "Zakon Estonskoi SSR o vnesenii izmenenii i dopolnenii v konstitutsiiu (osnovnoi zakon) Estonskoi SSR," *Sovetskaia Estoniia* (vechernyi vypusk), November 18, 1988, p. 1. The President of Estonia's Supreme Soviet, Arnold Ruutel, explained some of the reasons for Estonia's position in a speech to the USSR Supreme Soviet: Estonia wanted specific guarantees to protect against central directives that would further distort development of its economy and natural resources; wanted to resolve the confusion and conflict in areas of joint union and republic jurisdiction such as housing, municipal services and land use; and wanted to preserve its existing legislative and electoral system rather than adopt the new, two-tier structure of Supreme Soviet and Congress of Peoples' Deputies envisioned in the amendments. *Sovetskaia Estoniia*, November 29, 1988, p. 3. The USSR Supreme Soviet adopted a decree on November 26 declaring the Estonian action incompatible with the Soviet constitution. See *Moscow News* (supplement), no. 49, 1988, pp. 3-4.

3 See, for example, Gorbachev's speech to the Central Committee Plenum of February 18, 1988, complaining that local leaders, beset by food shortages, were inundating Moscow with telegrams requesting help from the center. *Moscow News* (supplement), no. 9, 1988, p. 4.

4 *Izvestiia*, November 30, 1988, pp 1-3.

THE W. AVERELL HARRIMAN INSTITUTE FOR ADVANCED STUDY OF THE SOVIET UNION
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more conservative regions. The side effects of economic reform — lower budget revenues, heightened goods shortages, a worsening deficit — have bred a new strain of regional protectionism, with the relatively prosperous Baltic republics limiting exports of goods to the rest of the USSR and erecting barriers against in-migration. The new openness about deficits and budgetary relations between center and periphery has led to outspoken polemics among republic leaders about who owes whom. Republic spokesmen now debate openly about the wisdom of further subsidies to less developed regions. And these issues, in turn, have led to widely disparate proposals for territorial decentralization through "self-financing" (*khozraschet*), ranging from a simple emphasis on strengthening republic and local budget rights to a call in the Baltic republics for virtual economic independence.

For Moscow, the prospect of further territorial decentralization poses some unenviable dilemmas. As the experience of economic reform has already demonstrated, republic and local authorities can develop innovative solutions for the ills of central planning, and the diffusion of such experiments could help to revitalize economic growth. In fact, proposals from Baltic economists for a market system have gone far beyond Moscow's efforts to mix plan and market. Since Moscow still seems intent on central direction of economic policy, granting more local control over the economy would seriously undermine the center's ability to continue its guiding role. Reasserting central guidance over macroeconomic policy can be a struggle once economic power is ceded to local authorities, as the Chinese have discovered. Local control also promises to reduce the center's ability to redistribute resources, thus widening the gap in economic development among regions and reversing a longstanding policy of subsidizing underdeveloped areas. And with greater economic inequality, the task of "harmonizing" inter-ethnic relations is likely to become even more difficult.

The Issue of Territorial Rights

As a recent article in *Kommunist* suggests, conflicts between central prerogatives and local power are likely to multiply. The authors note that last summer's Party Conference revealed growing republic and local concern over two sets of questions: cultural-linguistic development in conditions of growing ethnic self-awareness, and territorial-economic rights.[5] The cultural and linguistic issues have become familiar ones. *Glasnost'* and *demokratizatsiia* have brought to the surface debates over the status of minority languages, the content of education, affirmative action for non-Russians, the preservation of ethnic homelands, and the filling in of "blank spots" in the history of non-Russian nationalities.[6] And as history is reexamined, so too are old grievances such as the Armenian claim to Nagorno-Karabakh and the Tadjik claim to Samarkand.

Territorial economic grievances also reflect some familiar themes.[7] The consensus at the grassroots is stronger than ever that central controls and sectoral plans have distorted the quality of life in the republics.[8] Industrial ministries in Moscow pursue location strategies that seldom reflect local needs, slighting investment in social and economic infrastructure, and skirting social costs such as pollution and urban congestion. They and their enterprises control a major share — in some areas the dominant share — of funding for social services but often renege on agreements to develop these services in tandem with local governments. Hence the familiar stories about inadequate housing and services, and new apartment buildings with no stores or roads.

Since ministries often concentrate industrial expansion in developed areas to exploit the existing infrastructure, the costs in urban congestion and environmental hazards can be enormous. Regional and local officials complain that Moscow passes decrees restricting industrial expansion in major cities and requiring environmental protection measures, but then grants exemptions to so many enterprises that the effect is all but lost. Riga's Chief Architect G. K. Asaris outlined the problems for visiting Central Committee secretary Vadim Medvedev last November: the Central Committee and the USSR Council of Ministers adopted a resolution in 1981 limiting new industrial construction in the largest cities, including Riga. Yet central ministries continued to expand Riga's industry, with the result that the city's population grew by 41% more than had been planned, while housing grew less than 16%. Riga thus has some 75,000 families on the waiting list for an apartment. Similarly, despite central government decrees banning environmental pollution, Asaris notes that "the [USSR] Council of Ministers has a special section in a decree allowing enterprises to discharge waste in the Daugava."[9] In agriculture, central ministries are blamed for imposing irrational and costly crop priorities, for misusing land and water, and for fostering excessive use of chemical fertilizers and pesticides. Central Asian cotton offers a case in point: sown area devoted to cotton expanded over the years while water resources dwindled and yields declined. Moscow stressed cotton over more profitable food crops, despite the shortages in state stores. And chemicals used in the fields left

5 V. Koroteeva, L. Perepelkin, O. Shkaratan, "Ot biurokraticheskogo tsentralizma k ekonomicheskoi integratsii suverennykh respublik," *Kommunist*, no. 15, 1988, pp. 22-33.
6 Alexander Motyl offers an analysis of nationality issues under Gorbachev in "The Sobering of Gorbachev: Nationality, Restructuring, and the West," in Seweryn Bialer, editor, *Politics, Society and Nationality Inside Gorbachev's Russia*. Boulder, Colorado: Westview Press, 1989, pp. 149-74.
7 For an overview of regional and local complaints up through Gorbachev's first year, see my *Outside Moscow: Power, Politics and Budgetary Policies in the Soviet Republics*. New York: Columbia University Press, 1987, ch. 3, 5.
8 Previous republic leaders come in for their share of criticism too, for ignoring problems, or giving Moscow a false picture of local conditions. See, e.g., A. Musaelian, "Uchityvat' mestnye osobennosti," *Kommunist* (Erevan), October 10, 1988, p. 1.
9 *Sovetskaia Latviia*, November 15, 1988, pp. 1-3.

a harrowing legacy of health problems for the local population.

In construction, ministries and state committees in Moscow are blamed for hypercentralization — insisting on detailed regulations for homes, stores, and offices that conflict with local needs. As local planners complain, there is little reason for someone in Moscow to decide how many floors a building should have in Vilnius or Tbilisi.

The frustrations at the grassroots are understandable. It is in Tallinn, Kiev and thousands of other communities where uncoordinated central plans translate into supply bottlenecks, consumer goods shortages, transport and construction problems, and environmental damage. Regional and local officials are expected to overcome them through careful territorial planning. And authorities below the all-union level must deliver on top leaders' promises to improve material living standards for their local populations, since they bear the primary responsibility for social and cultural services, housing, and the consumer sector. Yet effective territorial planning remains an elusive goal as long as most major productive assets and tax revenues still belong to the center. Central ministries, for their part, have seldom had strong incentives to consider local needs, or even to keep regional and local authorities informed about the continual plan changes in subordinate enterprises.

The first round of *perestroika* included several remedies. Economic experimentation under Gorbachev (and Andropov) allowed republic and local governments to develop alternative schemes for economic administration and local planning. Reform has also encouraged a search for new economic methods abroad. Estonian officials, for example, have traveled frequently to Hungary to study its experience with decentralization and market socialism, and more recently, to the West to explore industrial and tax policies. Central and regional leaders alike have studied China's experience with special economic zones as a possible model for Soviet border regions.

Equally important, the economic reform has granted republic and local governments more authority over planning, especially in social welfare and the provision of consumer goods and services. Local soviets have been given the formal right to reallocate unused supplies, equipment and productive capacity among enterprises in their area, and to exploit a small share of industrial output from all-union enterprises to modernize and expand local consumer goods production. Local governments may also have their own enterprises oriented to the local market, and their own cooperatives and consulting firms. Republic governments have been granted greater powers of coordination, especially over the planning and provision of social services and consumer goods: they will acquire greater control over investment within their territory, and greater responsibility for enterprises with a regional or local market. Coordination is to be enhanced by requiring central ministries to seek local approval for projects affecting local development.

Implementing these new tasks will mean a major overhaul of economic and budgetary administration below the all-union level. Local soviets are acquiring new commissions of economic experts who will draw up territorial plans, "lead" economic work in the territory, and coordinate economic activities among enterprises. More important, republic and local authorities face a significant change in the way they raise and spend funds. Moscow's policy has traditionally been one of approving programs at the republic and local level and then allotting shares of all-union taxes to cover any gaps between planned expenditures and available local revenues. Now, this "expenditure-driven" system is to give way to one that is "revenue-driven." Republic and local governments are to spend only what they themselves can raise in revenues. Decrees in 1986 and 1987 took some steps in this direction, giving local governments the right to tax all-union enterprises, and the right to keep certain kinds of turnover taxes and enterprise profit payments collected in their territory. And, of course, the tax base is supposed to grow stronger as enterprises adapt to the new economic rules and generate new revenues. Taxes on cooperative and joint enterprises promise to supplement it still further.

The Local Impact of Economic Reform

As in any social experiment, the geography of reform has been uneven. *Perestroika* is more visible in the Baltic republics, the Caucasus and the Soviet West in general than it is in other parts of the country. Estonia, for example, led the country as of 1988 in number of cooperative enterprises per capita (380 per million people);[10] and Tallinn ranks second only to Moscow in the number of joint venture agreements signed (fourteen as of December, 1988, almost all of them with Finnish firms).[11] At the other end of the spectrum, only three of the 188 joint enterprises registered by the end of 1988 are headquartered in Central Asia.

As public criticism of regional and local performance suggests, the uneven spread of economic reform owes much to differences in regional leaders' commitment and political capacity to carry it out. Some republic leaders have also had other pressing problems to contend with: the costs of Chernobyl (estimated to range between 8 and 12 billion rubles) in the Ukraine and neighboring regions; the ethnic violence in Nagorno-Karabakh; the earthquake in Armenia; and the extensive campaigns against corruption in some Central Asian republics.

10 Armenia is second with 279, and Lithuania is third with 254. *Moscow News*, no. 47, 1988, p. 8.

11 Out of the first 188 joint venture agreements signed, close to half are situated in Moscow and Moscow oblast. Tallinn has fourteen, as does Leningrad. The rest are distributed primarily across the Soviet West and Far East. *Ekonomicheskaia gazeta* no. 44, 1988, p. 21; no. 45, 1988, p. 22; no. 46, 1988, p. 23; no. 48, 1988, p. 23; no. 49, 1988, p. 23; no. 50, 1988, p. 23; no. 51, 1988, p. 23; no. 2, 1989, p. 23; no. 3, 1989, p. 23; no. 4, 1989, p.23.

Yet politicians and analysts from virtually all regions seem to agree on the need to "reform the reform." Decrees granting more power to governments outside Moscow have been only partially implemented because of inadequate resources, a complex new planning system, continuing ministry controls, and lack of enterprise cooperation.

Two leading Soviet specialists on local government, Georgii Barabashev and Konstantin Sheremet, conclude that officials at the grassroots have been given more authority, but without the material and financial resources to back it up.[12] In their words, resolutions on expanding local prerogatives "have been limited to half-measures." Although discussions are under way to revise the budgetary system, Moscow still holds the power of the purse. Local revenue needs still receive short shrift despite the new tax rules. Not all local governments get the full revenues allowed by reform decrees, and enterprises sometimes fail to pay such taxes on time even when they have the funds.[13]

Planning below the all-union level has also become more complicated as "normatives" (guidelines, for example on the proportion of enterprise revenues to be remanded to the ministry and to the government budget) have replaced direct output targets. In theory at least, normatives provide a set of stable and uniform rules to govern enterprise decisions, so that managers can avoid the old risks of seeing their plan targets rise if they perform too well. Yet ministries set different rates from one year to the next and one enterprise to another, even within the same sector. Bargaining over normatives has thus taken the place of bargaining over the old plan targets.

In this environment, regional and local leaders must persuade ministries and enterprises to allocate enough resources for local needs. As Barabashev and Sheremet point out, the law provides them with little leverage, since it lacks any democratic procedure for protecting local interests in conflicts with ministries. Local needs often come last, after the ministry and the enterprise have taken the lion's share of enterprise profits.[14] Nor do all local governments have an equal ability to defend their interests: Kirgiziia's Finance Minister complains, for example, that local authorities still lack the resources to assess accurately how an enterprise stands in the national market.[15] The ambiguities surrounding reform at the local level thus prompted one deputy in the Supreme Soviet to complain last fall that "The slogan all power to the soviets is still a slogan."[16]

The economic side effects of *perestroika* magnify these funding and planning dilemmas below the all-union level. Diminished alcohol sales and worsening consumer goods shortages mean less budget revenue, especially for republic governments. A 1987 shift in jurisdiction over coal mines, geological services, and metallurgy industries from the republic to the all-union level cut the republic revenue base even further. And as some officials at the grassroots complain, their budgets have also been eroded by new plan procedures that allow enterprises to set their own profit plans. The result is less ambitious plans and thus lower tax payments to government coffers.

Revenue problems have been so acute in some republics that Moscow has had to dole out large and overt central budget subsidies. The 1989 budget calls for almost 6 billion rubles to be distributed among Kirgizia, Tadjikistan, Kazakhstan, Turkmenia and Uzbekistan, with sums ranging from 14% of the budget in Tadjikistan to 21% in Turkmenia.[17] Such direct subsidies to the republics have largely been avoided in the past, on the grounds that they would undermine local fiscal responsibility.[18] Funds were redistributed indirectly through tax sharing schemes that gave less developed regions a higher share of the all-union revenue collected in their territory, and through central budget expenditures (whose territorial distribution was not published). Since the current reforms have limited these indirect channels for reallocating funds, Moscow has turned instead to more direct and public redistribution.

Even with direct subsidies from Moscow, the fifteen republics still face a planned deficit of 11.2 billion rubles in 1989 — the first time in decades that the Soviet government has acknowledged an unbalanced budget.[19] As republic and

12 G. V. Barabashev and K. F. Sheremet, "Pravovaia baza obnovleniia mestnykh sovetov," *Sovety narodnykh deputatov*, no. 9, 1988, p. 9.

13 K. K. Kunakunov, Minister of Finance of the Kirgiz SSR, "Na otvetsvennom rubezhe perestroiki," *Finansy SSSR*, no. 10, 1988, pp. 8-14; M. G. Pabat, "Funktsionirovanie finansovogo mekhanizma v regione," *Finansy SSSR*, no. 11, 1988, pp. 8-12. Local governments thus net only modest returns from new taxes on all-union enterprises — for 1989, less than five percent of their revenues will come from this source. The Minister of Finance, B. I. Gostev, says that local budgets will get 2.1 billion rubles in deductions from profits of union-subordinate enterprises and another 1.7 billion in payments from all-union enterprises for excess labor. *Izvestiia*, October 28, 1988, pp. 4-5. Revenues from cooperatives remain modest, too, since the coops accounted for only 0.8% of retail sales in 1988.

14 Kunakunov, p. 9; F. A. Tabeev, Deputy Premier of the RSFSR, *Izvestiia*, October 29, 1988, p. 6.

15 Kunakunov, 10.

16 B. A. Zhuravlev, *Izvestiia*, October 29, 1988, p. 7.

17 "Zakon SSSR o gosudarstvennom biudzhete SSSR na 1989 g.," *Izvestiia*, October 29, 1988, p. 2. This is not, however, the sum total of subsidies to, or redistribution among republics. Among other things, ministries redistribute funds among enterprises located in different regions, price subsidies have differential effects across republics, and various taxes are allocated differentially among regions as well.

18 See *Outside Moscow*, ch 2. Over the last 40 years, planned, direct budget subsidies have been allocated to only a few republics (most frequently, Kazakhstan), in relatively small amounts, and only in certain years. As of 1985, however, the government budget began to include subsidies of between 10 and 20% of revenues to Kazakhstan and all four Central Asian republics. Note, though, the picture is different below the republic level. Local governments frequently receive subsidies, because their revenue bases are narrower and less stable.

19 The central government will carry a planned deficit of 23.7 billion rubles. See "Zakon SSR o gosudarstvennom biudzhete..."

local leaders point out, the deficit leaves them with a mandate to improve social welfare, consumer goods production, trade, and infrastructure at a time when Gosplan and the Ministry of Finance have failed to cover their revenue needs. The Minister of Finance, B. I. Gostev, suggested that they should look for local solutions by finding alternative revenue sources, from lotteries and auctions to new taxes.[20] In their experience, though, experiments like these simply evoke "the ratchet principle": increased local tax effort typically prompts Moscow to cut the revenues it shares with subordinate governments.

The deficits are especially problematic for republic and local leaders now, since Moscow is promising to expand the social programs that they administer. Gorbachev's platform includes a guarantee of separate apartments for every family over the next twenty years, and plans for 1988 and 1989 have called for greater social investment across the board. Public consumption funds in both years have been slated to grow faster than national income and faster than private consumption, health care is to expand, and teachers are to receive higher pay.[21] And, of course, consumer goods are supposed to become more plentiful under republic and local supervision. While part of that goal is to be accomplished through greater privatization, regional and local governments are expected to chip in with more support, too. Some of the costs can be offset by expanding the private sector and by relying on user fees for public services such as health care; but as the controversy over cooperative prices and incomes demonstrates, private solutions still encounter public resistance.

Republic and local officials also face some new and costly policy choices. With the rise of a Soviet "green" movement, demands for new environmental cleanup programs and local protests against industrial expansion have multiplied. The result is something of a "not in my back yard" syndrome, as governments below the all-union level refuse to approve new and potentially hazardous projects. In one case, USSR Minister of Oil and Gas N. V. Lemaev noted with some exasperation last November that a meeting in the Supreme Soviet's Presidium had approved plans for a new chemical industry complex, but neither Belorussia nor Ukraine would agree to build it: "'Why don't you build it on the moon,' they're telling us now. So it has been decided to build it in the taiga. That will require an investment of about 15 million rubles."[22] In Lithuania, government and public objections blocked offshore drilling on the Baltic coast in 1986 by the same ministry. In Estonia, both the government and the public are resisting USSR Ministry of Mineral Fertilizers plans to develop local phosphorites. Other protests over environmental hazards have spread from Odessa to Frunze to Kamchatka. And public objections to nuclear power plants since Chernobyl have slowed and in some cases halted new reactor construction.

For 1989, the combination of higher social spending priorities, environmental concerns, and budget deficits put more pressure on leaders outside Moscow to juggle public demands with limited local resources. They will need to find new tax sources, or, alternatively, to decide which social programs to cut, at a time when Moscow has promised to expand them.

Economic Stringency and Interregional Tensions

The side effects of the reform program and the highly publicized budget deficits add to barely suppressed tensions over inter-regional relations. Republic leaders speak increasingly of economic survival as a zero-sum game, searching for local defenses against what they view as unfair economic exchanges. The resulting regional protectionism has been especially open in the Baltic republics, with restrictions on sales and exporting of scarce goods to the rest of the country and barriers against in-migration of labor. These actions, in turn, add a new intensity to the ongoing debate about redistribution among the republics.

As Baltic leaders complain, Moscow's decisions to build and expand local industries have brought an influx of outsiders, putting a strain on an already overburdened social infrastructure. And, of course, the in-migration of non-natives raises sensitive political questions about the inter-ethnic distribution of economic benefits and political representation. Estonia's Ruutel contends, for example, that "massive importation of labor has fundamentally altered the ethnic composition of the population and put the future of the Estonian nation under a cloud."[23]

Experiments with economic levers to quell enterprise demand for outside labor have been only partially successful, and recent republic proposals call for stricter controls. Latvian Premier Yurii Ruben announced in August 1988, for example, that the republic will no longer create new enterprises unless they use Latvian raw materials and draw labor from among current residents of the republic.[24] The Latvian government has also proposed that workers be allowed to migrate into the republic (or into its largest cities) only in exceptional cir-

20 Gostev, pp. 4-5.
21 The 1989 plan calls for national income produced to grow by 3.8%, and real income per capita, by 3.1%, while public consumption funds are to increase by 8.2%, and volume of paid services to the population, by 8.1%. It also includes provisions to raise wages for workers in health care and social security and instructors in higher education; expand maternity leave for working mothers; and extend the period of support for dependent children in poorer families. "Zakon SSSR o gosudarstvennom plane ekonomicheskogo i sotsial'nogo razvitiia SSSR na 1989 god," *Izvestiia*, October 29, 1988, p. 1. The 1988 plan envisioned increases of 4.3% in national income and 2.7% in real income per capita, but 6.5% in public consumption funds. "Zakon o gosudarstvennom plane ekonomicheskogo i sotsial'nogo razvitiia SSSR na 1988 god," *Izvestiia*, October 21, 1987, p. 1.
22 *Pravda*, November 2, 1988, pp. 1, 3.
23 Ruutel, p. 3.
24 TASS, August 1, 1988, cited in *Radio Liberty Research Bulletin*, 350/88, August 5, 1988, p. 6.

cumstances and only with approval from the local soviet. Enterprises bringing in such workers would have to pay the local soviet 25,000 rubles for each worker and for each member of his family. Other people coming in to the republic would be prohibited from buying housing and denied residence permits; and students who come to Latvia for higher education would be required to go back to their previous place of residence after graduation.[25]

Growing economic strains have also fostered tensions over consumer goods. Regional spokesmen note with some bitterness that their populations do not always reap the benefits of local production. Moldavia's V. A. Protsenko told the Supreme Soviet, for example, that it is not "just" for Moldavia to be exporting meat to the rest of the country, since its production is growing but its consumption per capita is decreasing.[26] Baltic leaders have expressed concern over shipments of scarce goods out of their republics, and over travelers arriving to shop in local stores. Latvia's Council of Ministers has moved to restrict individuals from shipping goods out of the republic and to issue residence cards that would keep nonresidents from buying such items.[27] And Estonia recently adopted a similar measure, prohibiting people from sending hard-to-find goods out of its territory.[28]

The new openness over republic budget subsidies and deficits does little to reduce these frictions. Discussions of territorial economic rights are filled with references to "donor" versus "debtor" regions. Thus Georgia's Premier O. E. Cherkeziia told the Supreme Soviet in October 1988 that Georgia is a net exporter of goods — especially of goods in high demand: "This has a negative impact on money circulation in the republic, since cash from the sale of Georgian goods goes into circulation in other parts of the country."[29] Estonia's E. A. Paap noted that Estonia will give up 223 million rubles more to the all-union budget than it will get back this year.[30] Kazakh Premier Nazarbaev complains that because of the uneven regional distribution of raw materials versus finished goods production, and biased price and tax structures, Kazakhstan loses billions of rubles in national income to other regions in its position as a supplier of raw materials.[31] Almost all regional spokesmen can thus find at least some data to show that their area has made undue sacrifices. Whether any republic is actually a net donor or debtor is less clear, however, since redistribution comes in a variety of forms, and complete data on their combined effects are still scarce.

Talk of donors and debtors has led some regional spokesmen to propose an outright end to inter-regional subsidies. Lithuanian economists, for example, in explaining their conception of economic sovereignty, would eliminate subsidies to other republics and substitute loans instead. Transactions would thus be based on negotiation between individual republics rather than on Moscow's direction. As the Director of the Lithuanian Academy of Sciences' Institute of Economics argues, this arrangement would guarantee "equivalent exchange among republics. Then it will be clear who lives how, on his own earnings or not."[32]

Predictably, the idea of continuing inter-regional transfers finds a more receptive audience in less developed regions. Some leaders, especially in Central Asia, contend that subsidies are still necessary to rectify past mistakes by the central government and by their predecessors. Regional leaders also invoke national security and the traditional ideological promises of equality to justify further redistribution. In light of the continuing budget subsidies for 1989, their pleas seem to have found at least temporary support in Moscow, but the prospects for further regional equalization appear to be growing dimmer.

Experiment in Territorial "Self-Financing": Two Views

The uneven geography of reform and the debates over subsidies to less developed regions have pushed questions about greater regional economic autonomy and territorial self-financing (*khozraschet*) higher on the political agenda over the last year. Baltic economists in particular argue that their success with *perestroika* is threatened as long as their economies are still subjected to Moscow's petty tutelage. Cooperative and individual enterprises, self-managed state enterprises, and joint ventures need to be freed from the delays and central intervention that still characterize central planning. Even if only some republics adopt full self-financing, so the argument goes, they can provide a model for others to follow. And as self-financed regions restructure their economic exchanges with the rest of the USSR, the benefits of their experiments with a market-oriented system will spread.[33]

25 *Sovetskaia Latviia*, November 10, 1988, pp. 1;3.
26 *Izvestiia*, October 30, 1988, p. 3.
27 *Pravda*, November 4, 1988, p. 3.
28 *New York Times*, February 5, 1989.
29 *Izvestiia*, October 29, 1988, p. 7.
30 *Izvestiia*, October 30, 1988. However, the president of Estonia's gosplan notes that all told, the republic gets back approximately what it gives out to the rest of the USSR. *Sovetskaia Estoniia*, November 23, 1988, p. 3.
31 A. Nazarbaev, "Problemy razdeleniia truda," *Ekonomicheskaia gazeta*, no. 5, 1989, p. 16. These complaints are more vehement than in past years, but they are not new. See the discussion of earlier regional lobbying in *Outside Moscow*, ch. 2 and 4.
32 *Sovetskaia Litva*, November 11, 1988, p. 2.
33 *Ibid.*

Gorbachev has endorsed territorial self-financing in principle, and the chairmen of republic *gosplany* met in Moscow with Premier Ryzhkov last fall to discuss their ideas of how it would work. As of 1989, the Baltic republics, Belorussia, the Tatar ASSR, Sverdlovsk oblast, and Moscow will begin experiments to develop its basic outlines.[34] However, the discussion thus far suggests that republic and local leaders are far from a consensus on this issue, with proposals ranging from a simple emphasis on budget balancing to more radical versions in the Baltic that bring to mind the Articles of Confederation.[35]

Estonia's initial proposal, published in September 1988, outlined the radical view.[36] In it, the republic would replace Moscow as the supreme power in Estonia, with full control over all government agencies, all public property (including land, minerals, water, forests, government agencies, banks, buildings, infrastructure, and other public valuables), and all budget and tax decisions. The republic would also have its own price system and currency based on the world market. To support essential functions at the central level such as defense, foreign affairs and administration, the republic would pay a "union" tax, according to a formula that would leave residual revenues to the republic rather than to the center. Relations with other regions would be based on forging a consensus on mutual rights and common goals. In essence, the economy would forego central planning of output or supplies, and rely instead on the market to guide enterprise decisions.

More conservative approaches have also been sketched out. Kazakh Premier Nazarbaev, for example, defines the idea of territorial self-financing as a complement to continued central planning. As he explains, some branches of the economy — those of "all-union significance" — need to remain in the hands of the central government. Others, especially agriculture and light industry, should be in republic hands. Although Nazarbaev does not deal with them explicitly, property rights, prices, currency and other issues would presumably continue to be centrally determined.[37]

How much republic leaders outside the Baltic support the radical option is not clear.[38] There is a consensus, though, on who *opposes* full regional self-financing — namely, leaders in republics that currently receive subsidies. As Nazarbaev and others explain, the existing territorial division of labor has produced a split between primary regions (those with predominantly extractive industries) and processing regions (those with a greater share of finished goods production); the relatively low prices for natural resources mean that more enterprises in primary regions operate at a loss. According to Estonia's Otsason, "[t]hat is why the 1989 budget foresees a subsidy to Kazakhstan (the highest in the country) of 2.7 billion rubles. Naturally, to such a republic the idea of *khozraschet* means its bankruptcy."[39]

The Dilemmas of Decentralization

If 1989 is to be the year for restructuring nationality policy and center-periphery relations, it promises to be a long year. Finding a workable compromise among the contending approaches to economic decentralization alone will be a formidable task. Gorbachev has narrowed the agenda somewhat by explicitly rejecting the Estonian model of ceding property rights and virtually all economic controls to the republics. That, he argued, would mean a step backward, just when "integration, division of labor, cooperation [sic] have become prevalent..." and when combining resources is essential to collective economic success.[40] Besides, as Gorbachev noted, giving the right of full self-financing to republics would be at odds with *enterprise* self-financing — and the latter ought to take precedence.

Yet Gorbachev contends that republics and regions, too, are to be on full cost-accounting, thus raising the question of what such a concept will mean in practice. If it is to be the conservative variant, as a special USSR commission on republic self-financing recently recommended, substitution of republic for central controls in light industry, agriculture, infrastructure, and social services would simply trade one set of bureaucratic masters for another.[41] And if central ministries retain the power to distribute resources or supplies, or impose state orders, republic and local governments will still be saddled with the dilemmas of local planning in a system where sectoral concerns continue to dominate.

Leaving the door open to more radical territorial decentralization raises the prospect of a less rigid but also less manageable system of center-periphery relations. It seems clear that the Baltic republics, at least, would outrun Moscow in adopting more market-oriented reforms and expanding foreign economic ties. Yet allowing regional and local governments more initiative also promises more wrangling between Moscow and the periphery over the rules of the game

34 *Izvestiia*, October 29, 1988, p. 1.
35 Also, "self-financing" may apply at different levels of government, from union republics on down to rural soviets, with different meanings at each level.
36 "Kontseptsiia khoziaistvennogo rascheta Estonskoi SSR (tezisy)" *Sovetskaia Estoniia*, September 30, 1988, pp 1-2. Lithuanian economists adopted a similar approach. See *Sovetskaia Litva*, November 11, 1988, p. 2.
37 Nazarbaev, p. 16.
38 Nazarbaev told a Moscow press conference in October that no other republics supported the Estonian model, but Estonia's Otsason responded that it was the Kazakh view that had received little support. *Sovetskaia Estoniia*, November 23, 1988, p. 3.
39 *Ibid.*
40 *Moscow News*, no. 49, 1988, (supplement), pp. 1-4.
41 The President of Latvia's Gosplan, M. L. Raman, who headed the commission, reports in a recent interview that territorial self-financing is to proceed in stages, and in the initial stage, the agro-industrial complex, light industry, construction, the construction materials industry, trade, the forestry and timber industries, and certain all-union enterprises producing consumer goods are to be assigned to republic jurisdiction. In addition, economic infrastructure of "regional significance," "interbranch" production, housing, municipal services, local transport, health, education and other public services are also to be regional and local concerns. *Ekonomicheskaia gazeta*, no. 11, 1989, pp. 9-10. Note, however, that these are the sectors where republics already share jurisdiction with Moscow; see *Outside Moscow*, ch. 2, 3.

(as in the amendments to the Constitution) as well as over substantive economic issues such as interregional trade flows, industrial location, environmental protection and even foreign policy. After all, joint ventures, growing foreign trade and the possible creation of special economic zones are bound to pull each region's economic interests in different directions. The geography of joint venture creation already suggests some predictable cleavages, with the Baltic republics and Leningrad attracting capital from Finland, the rest of the European USSR focused on Western and Eastern Europe, and regions east of the Urals looking to Asia.

Greater decentralization of economic power to republics, *oblasti*, or lower governments also promises to spur a new round of localism. Making the republic or the locality economically self-sufficient by definition makes local needs the prime consideration for regional and local leaders. Encouraging territorial self-sufficiency in the absence of true markets and market prices also fosters underuse or misuse of scarce resources. As China's experience with decentralization demonstrates, the unintended consequences can be extremely difficult to contain.[42] When regional and local authorities are encouraged to put their own area first, they tend to invest in smaller-scale and often duplicative projects geared to the local economy, thus dispersing investment and bidding up the price of capital goods. And with infant enterprises to promote and jobs to protect, the temptation to impose protective barriers against goods and migration from other regions grows stronger. With the dispersion of resources, central investment projects to develop energy resources, infrastructure and other collective goods become more difficult to fund, since they must compete with local projects for capital goods and since the central government finds it more difficult to generate budget revenues. And once local projects are on line, the central government may find it difficult to reassert control over where and how public resources are spent; central economic directives simply get ignored.

Finally, extensive decentralization threatens to undermine the modest degree of economic equalization that has been achieved among regions and ethnic groups. As the debate over territorial self-financing reveals, requiring republics to pay their own way will be especially problematic for "primary" regions in Central Asia, where local industry and agriculture concentrate on less profitable products. Local leaders can, of course, diversify and reorient factories and farms, but the conversion will require substantial capital that does not seem to be forthcoming from Moscow. Nor is it clear that even a massive infusion of new capital would produce the economic results that Moscow would like. Gaps in levels of economic development and living standards could therefore grow wider. Ethnic inequalities are likely to become even more pronounced if protectionism creates barriers to interregional migration, and republics' insistence on the use of the local language further inhibits mobility across regional borders.

Thus more radical territorial decentralization raises the prospect of a society in which ethnic/linguistic cleavages and economic inequalities coincide ever more closely — making both more difficult to manage in a new and more open political environment.

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42 See the account of China's problems in the *New York Times*, December 11, 1988, pp. 1, 26; and in Christine Wong, "Material Allocation and Decentralization: Impact of the Local Sector on Industrial Reform," in Elizabeth Perry and Christine Wong, eds., *The Political Economy of Post-Mao China*, Cambridge: Harvard University Press, 1985, pp. 253-80.